



Metropolitan Government of Nashville and Davidson County

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♦ Monitoring Report of ♦

Kelly Miller Smith Center Against Abusive Behavior



Issued by



Office of Support Services
Division of Grants Monitoring

Fred Adom, CPA
Director

June 6, 2002

Kevin Brown, Lead
Auditor

Our Vision: To be excellent and proficient in monitoring and management services.

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
222 THIRD AVENUE NORTH, SUITE 650
NASHVILLE, TENNESSEE 37201

June 4, 2002

Maliaka Essam Eldin, Esq.
Kelly Miller Smith
460 Tenth Circle North
Nashville, TN 37203

Dear Mrs. Eldin:

Please find attached the Monitoring Report of Kelly Miller Smith, Inc. relating to the contract it has with the Metropolitan Government of Nashville and Davidson County for the fiscal year ending June 30, 2002. The Division of Grants Monitoring (DGM) is charged with the responsibility of monitoring grant funds from Metropolitan Nashville Government to any nonprofit organizations, which receives appropriations from the Metropolitan Nashville and Davidson County government. DGM is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government. Staff from the DGM conducted the review on March 26, 2002.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at 615-880-1035.

Sincerely,

Fred Adom
Director

cc: Ruth Dennis, Co-Director of Kelly Miller Smith
Alice Smith, Co-Director of Kelly Miller Smith
David Manning, Director of Finance
Nancy Whittemore, Assistant Director of Finance
Joe Holzmer, Division of Accounts
Kim McDoniel, Internal Audit
Cristi Scott, Metro Legal
Kevin Brown, Division of Grants Monitoring

Monitoring Report
for the
KELLY MILLER SMITH

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OBJECTIVES, SCOPE AND METHODOLOGY

The Division of Grants Monitoring (herein after referred to as DGM) is charged with the responsibility of monitoring grant funds from Metropolitan Nashville Government to any nonprofit organizations, which receive appropriations from the Metropolitan Nashville and Davidson County government. DGM is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government.

We have completed a monitoring review of the Metropolitan Nashville Government grant to Kelly Miller Smith for the year ended June 30, 2002. A monitoring review is substantially less in scope than an audit. DGM did not audit the financial statements and accordingly, does not express an opinion or any assurance regarding the financial statements of Kelly Miller, Inc. Our objectives for this review were:

- 1) To determine whether the agency has the resources and capacity to administer the grant funds
- 2) To test if costs and service are allowable and eligible
- 3) To verify that program objectives are being met
- 4) To test the reliability of the financial and programmatic reporting
- 5) To test the reliability of internal controls
- 6) To verify contractual compliance
- 7) To verify that civil rights requirements are being met

The review was limited to Metropolitan Nashville & Davidson County Government grant L-401 to Kelly Miller Smith for the fiscal year ending June 30, 2002. The Metro grant supports approximately ninety percent of the funding and operations of Kelly Miller Smith. To accomplish our objectives of the monitoring review we:

- Interviewed the officials responsible for the grant management, financial reporting and accountability.
- Randomly selected and reviewed two payroll periods covering for the month of July and November 2001. The payroll expenses constituted seventy-five percent of the total charges to the grant.
- Reviewed controls and supporting documentation of non-payroll expenditures for allowability, necessity and reasonableness of the costs incurred.
- Reviewed operations and activities offered by Kelly Miller Smith and its compliance with the intended beneficiaries of the grant funds.
- Reviewed Kelly Miller Smith's compliance with required Civil Rights and ADA regarding accessibility of the services to handicapped clients and measures taken to accommodate the needs of such clients.
- Reviewed Kelly Miller Smith's compliance with the reporting requirements imposed by Metro.
- Reviewed the financial stability of the Kelly Miller Smith and its ability to continue to administer the grant program funded by Metro.

RESULTS OF MONITORING

Findings considered to be significant can be found in the Findings and Recommendations Section. The Results of Monitoring section presents brief summaries of results of the testing performed including conclusions regarding the key objectives, recommendations for improvement and an action plan for implementing the conclusions. The results of the monitoring are listed below:

1. Possess necessary resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualification of the individuals assigned to manage the accounting records, and other available resources, indicate that the Kelly Miller Smith possesses the necessary resources and expertise to administer the grants funds. The staff, at Kelly Miller Smith, consists of two Co-Directors with more than five years experience with administering grant funds. The agency has a contracted accountant to keep the agency's books. The agency uses Peachtree accounting software. Kelly Miller Smith's board meets twice per fiscal year. During the meetings, the Co-Directors update the board members on status of the program through progress report, performance including the number of participants in the program.

2. Allowable and Eligible costs and services

DGM normally reviews for the agency's compliance with any specific requirements outlined in the grant contract. The contract between Metropolitan Nashville Government and Kelly Miller Smith for the year ended June 30, 2002, did not hold Kelly Miller Smith to any specific requirements and/or compliance with grants manual with the exception of submission of an annual audited financial statements. Our review determined that Kelly Miller Smith was in compliance with this requirement.

Also the contract did not specify for the separate accounting of the Metropolitan Nashville Government grant funds or prohibit co-mingling of the Metro Funds with other sources of funding, therefore the agency used these funds to support general operations. As a result, we could not segregate and account for the expenditures separately funded with Metro dollars. Our review covered all of the core areas compliance areas identified by OMB Circular 133 Audits of States, Local Government, and Non-Profit Organizations.

3. Program objectives being met

The contract between Metropolitan Nashville Government and Kelly Miller Smith for the year ended June 30, 2002, did not hold Kelly Miller Smith to any specific Program objectives other than for the benefit of residents of Metro Davidson County. The agency's operations generally benefit Metro Nashville residents. Due to the lack of specific program objectives, we could not determine whether the Program objectives were met.

4. Reliability of financial and programmatic reporting

There were no financial and/or programmatic reporting requirements placed on Kelly Miller Smith. The contract only called for submission of an annual audit report performed by a Certified Public Accountant. There was no monthly, quarterly or annual reporting of the uses of the expenditures back to Metro Government or any program reports of the program outcome. Due to the lack of specific requirements on Kelly Miller Smith, we were unable to determine whether Metro Funds were used for any unauthorized purposes or not. However, nothing came to our attention to indicate the funds were used for any unintended purposes or any thing that would indicate non-compliance with OMB Circular 122, Cost principles for Non profits.

RESULTS OF MONITORING

5. Reliability of internal controls

Our review of the internal controls of Kelly Miller Smith revealed that the agency does not have the 501(c)(3) status of the Internal Revenue Code of 1986. See finding in the findings and recommendations section. Supporting documentation for expenditures against the grant was poor. Review of the audited financial statements for the year ended June 30, 2001 revealed that there is not a current written lease agreement for the office space that Kelly Miller Smith occupies.

6. Contractual compliance

The agency's operations generally benefit Metro Nashville residents as required in the contract. Due to the lack of other specific contractual requirements, we could not test for any specific contractual compliance.

7. Civil rights requirements

Our review did not reveal anything to indicate that Kelly Miller Smith was not in compliance with civil rights requirements. We noticed the necessary postings of the Non Discrimination Posters. The agency does not have a written policy on discrimination, however, the agency uses the posters that are required as proof of their non-discriminatory policy.

FINDINGS AND RECOMMENDATIONS

1. Kelly Miller Smith does not have 501(c) exemption status.

Finding

Review of the agency's records and inquiries of the agency officials revealed that Kelly Miller Smith does not have 501(c) exemption status as required by law. TCA 6-54-111 (a)(2) states that a municipality may appropriate funds for the financial aid of any nonprofit charitable organization or any nonprofit civic organization in accordance with the guidelines required by subsection (b). For the purposes of this section, a nonprofit civic organization means a civic organization exempt from taxation pursuant to 501 of the Internal Revenue Code of 1954. This deficiency was previously reported in the audited financial statements for the year ended June 30, 2001 but Kelly Miller Smith has not taken any active measures to rectify the situation. The lack of required exemption status precludes Kelly Miller Smith from receiving financial assistance from Metro.

Recommendation

Kelly Miller Smith should take the necessary immediate measures to obtain the required exemption status to qualify for financial assistance from Metro. Kelly Miller Smith should apply for exemption from taxation under the section 501 of the Internal Revenue Code of 1954, as amended. Financial assistance from Metropolitan Nashville and Davidson County Government should be suspended until such exemption is obtained.

2. Needs to improve documentation of expenditures.

Finding

Testing revealed that the agency does not always maintain the proper documentation necessary to support grant funds. The lack of efficient and proper documentation and the poor organization of the invoices made it impossible to difficult to associate the invoices to specific checks. The invoices are placed in common folder without any notation that correspond specific checks. This form of documentation made it impossible to determine whether the costs were allowable, necessary and reasonable. Testing also revealed that the agency does not have a lease agreement or any supporting documentation for rent payments.

For costs to be allowable, as set forth in *OMB Circular A-122, "Cost Principles for Non-Profit Organizations,"* they should meet the following criteria:

- a. Be reasonable for the performance of the award.
- b. Conform to any limitations or exclusions set forth in these principles.
- c. Be consistent with policies and procedures that apply uniformly.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as cost or used to meet cost sharing or matching requirements.
- g. Be adequately documented.

Recommendations

- A. Kelly Miller Smith should establish written accounting and procurement policies, which should include an efficient way of maintaining the proper documentation that supports grant expenditures.**

- B. Kelly Miller Smith should ensure that proper and necessary documentation is maintained to support all program expenditures**
- C. Kelly Miller Smith should enter into a lease agreement for the office space that the agency occupies. A lease agreement should delineate the obligations of both parties and serve as supporting documentation for the rent payments.**

3. Other Recommendations

- I. Metropolitan Government of Nashville and Davidson County should revise the provisions of the contract with Kelly Miller Smith to include but not limited to the following:**
 - i) Specific provisions for program outcomes
 - ii) Specific financial reporting requirements, including format, frequency and type of cost.
 - iii) Specific programmatic reporting requirements, including format, frequency and type of information
 - iv) Reference to compliance requirements that Kelly Miller Smith will be subject to.
- II. Metropolitan Government of Nashville and Davidson County should develop a Grants Manual that will outline the minimum and general expectations and requirements of all grant recipients of Metro Funds. This manual should address allowable and unallowable costs and cost principles to be followed by all nonprofit recipients of Metro funds.**
- III. Metropolitan Government of Nashville and Davidson County should address the process and necessary claim documentation by which Kelly Miller Smith and other Nonprofits can obtain funds to administer program.**